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UNCLAS SECTION 01 OF 02 ALGIERS 002293

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SUBJECT: ALGERIA BANKING SECTOR SUFFERS ANOTHER SETBACK

1. (U) SUMMARY: The Algerian banking system was recently hit by another scandal of fund embezzlement at the state-owned National Bank of Algeria (BNA). This comes at a time when the GoA is making a big push to privatize and reform the banking sector. According to media sources, between 2002 and 2005 about one hundred complex transfers caused AD15 billion (\$205 million) in losses for the treasury. Several high-ranking officials have been implicated in the scandal, including the former CEO of BNA. Six of these men have been formally charged and placed under legal proceedings. One official is said to be hiding in Great Britain and others are expected to be implicated following additional investigations. Following the past bankruptcy of private banks due to fraudulent activities, it appears to be the turn of public banks to cause problems for the GoA. End Summary

EMBEZZLEMENT OF \$205 MILLION

2. (U) The embezzlement of \$205 million was recently discovered at the state-owned Banque Nationale d'Algerie (BNA). Some specialists are speculating that actual losses may reach as high as AD160 billion (\$2.19 billion). According to initial inquiries, between 2002 and 2005 large amounts were transferred from account to account within the country to branches in the small cities of Kolea, Cherchell and Bouzareah. The funds were then diverted overseas to European banks, making it difficult to identify the perpetrators. The most recent transaction of \$27 million may have been as recent as September 2005. Minister of Finance Mourad Medelci declared in an interview on national Arabic radio that this was unfortunate and announced that in cooperation with the Ministry of Justice, an investigation was underway at the Bank of Algeria and at the Ministry of Finance to uncover the facts. He added that an enquiry commission composed of Algerian and foreign experts was currently working on the case.

HIGH RANKING OFFICIALS IMPLICATED

3. (U) Since the discovery of the fraudulent activities, six high officials, including the former CEO of BNA and regional Directors of the Bank's subsidiaries, have been charged and placed under legal proceedings. The press has speculated that the enquiries may reveal the involvement of additional parties. One official was reported to have fled the country and is allegedly hiding in Great Britain. Media reports are claiming that these six officials are merely 'fall guys' and that the real actors who orchestrated the theft are still in hiding.

AFTER PRIVATE BANKS, PUBLIC BANKS

4. (U) The Algerian banking system was first weakened by the 2003 bankruptcy of the two largest private banks, Khalifa Bank and Banque Commerciale et Industrielle d'Algerie (BCIA), owing to violations of bank regulations and reserve requirements. The Khalifa Bank collapse hurt millions of ordinary Algerians, revealed serious deficiencies in government supervision of banks, and seriously undercut support for bank privatization. It also threatened other local private banks, despite their limited size, as clients lost overall confidence in private financial institutions and the government drew the wrong lesson from Khalifa's negligence and proceeded to instruct public enterprises to deposit their funds only in state banks. The decision by the GoA to strengthen bank controls appears to have applied only to local private banks, while public banks subject to the same regulations continued to benefit from state 'protection'.

5. (U) Between 1999 and 2002, the Treasury bailed out public banks to enable them to meet reserve and debt ratio requirements. Following the recent scandals of Banque de Development Local (phony accounts causing \$164 million in losses), Banque Exterieures d'Algerie (numerous non-performing loans) and the Banque Algerienne du Developpment Rural (questionable loans granted to a big packaging company), long running efforts by the GoA to modernize and privatize banks are once more in question. Former Finance Minister Benachenhou, expressing the disgust, frustration

and mistrust of most Algerians, was quoted in a recent press article as declaring the current financial system of Algeria a threat to the security of the state.

16. (SBU) Embassy contacts in the private banking sector told EconOff that the GOA brought in a French expert to assist in the ongoing investigation. One source said the Algerians do not even know how much money was taken. There are all sorts of figures floating around the banking system but no one really knows how large this scandal may be. Asked about the effect this will have on the hopes of the Algerian government to privatize the BNA, the same source laughed and said we should first wait to see if the Algerians are successful with the privatization of the first bank, Credit Populaire d'Algerie (CPA). He added that BNA privatization is a long shot at best. BNA is a much bigger bank than CPA with a lot of non-performing public sector loans. EconOff will follow up with private sector contacts for additional information and insights following the as yet unscheduled banking committee meeting that has been called to address the scandal.

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